

June 29, 2001

Robert N. Werlin, Esq.
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21 Custom House Street
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Re: Standard Offer Service Fuel Adjustments, D.T.E. 00-70-A

Dear Attorney Werlin:

On December 4, 2000, the Department of Telecommunications and Energy ("Department") approved a uniform Standard Offer Service Fuel Adjustment ("SOSFA") mechanism to permit Boston Edison Company ("BEC"), Cambridge Electric Light Company ("Cambridge") and Commonwealth Electric Company ("Commonwealth") (together, the "NSTAR Companies") to recover properly supported fuel costs through a surcharge to their standard offer service rates. Standard Offer Service Fuel Adjustments, 00-66, 00-67, 00-70 (December 4, 2000) ("December 4th Letter"). This same mechanism was approved for the other electric distribution companies. While the Department directed the electric utilities to adjust their standard offer service rates on an annual basis, it also directed the utilities to report, by July 1, 2001, their standard offer service deferral balances as well as their SOSFA monthly amounts so that the Department could determine if an interim adjustment would be necessary. December 4th Letter at 15.

On May 18, 2001, the NSTAR Companies notified the Department of their standard offer service deferral balances and monthly SOSFA amounts. The NSTAR Companies propose a mid-year increase in their SOSFAs from 1.321 cents per kilowatt-hour ("KWH") to 2.551 cents per KWH for usage on and after July 1, 2001. The Companies calculate their proposed SOSFAs based on fuel oil and natural gas market prices over the May 2000 through

April 2001 time period. Without a mid-year adjustment, Cambridge's projected standard offer deferral balance will be \$16.743 million by the end of the year. Similarly, without a mid-year adjustment, Commonwealth's projected standard offer deferral balance will be \$18.897 million and BECo's will be \$38.525 million by the end of the year. The Department requested comments on the Companies' proposal on or before June 14, 2001. No comments were received as of that date.

After consideration of its projected deferral balance, Cambridge has shown that a mid-year adjustment is necessary. While we are mindful of the effect of these present increases, allowing standard offer service deferrals to rise would threaten the operating soundness of the company and risk adverse effects on customer service. The balance of risks urges steps to limit deferrals and their associated risks. Costs that are not recovered from standard offer service customers now, will be recovered, with interest, from all customers in the future. See December 4th Letter at 4-5. Accordingly, Cambridge may adjust its SOSFA surcharge to 2.551 cents per KWH for usage on and after July 1, 2001.

Due to the structure of the contracts that they have entered into to supply their standard offer load, Commonwealth's and BECo's standard offer service deferrals are forecast to decrease by the end of the year, even without an adjustment to their current SOSFAs. Mid-year adjustments for these companies would, however, reduce standard offer service deferrals even more. With its proposed mid-year adjustment, Commonwealth forecasts that its standard offer deferrals will be reduced to \$0.119 million by the end of the year.¹ With the proposed mid-year adjustment, BECo initially forecasted that it will overcollect standard offer service costs by \$15.783 million by the end of the year.² However, in a supplemental response to an information request, the company argues that applying the terms of its standard offer service settlement agreement approved by the Department in Boston Edison Company, D.T.E. 98-111-A (2000), and the Department's directives in Boston Edison Company, D.T.E. 99-107-A (2001), it will not over-recover of standard offer costs for year-end 2001 (NSTAR Response to IR-AG-1-1 Sup.).

We have not had an adequate opportunity to investigate BECo's supplemental filing indicating that it will not over-recover standard offer costs for year-end 2001. However, BECo argues that a reconciliation mechanism exists in the event that there is an over-recovery of standard offer costs. Consistent with its restructuring settlement, BECo proposes to return any overcollection of standard offer service costs as a credit, with interest, to all of its retail customers, serving to reduce the total level of deferrals (transmission, transition, standard offer

¹ Standard offer deferral balance of \$18.897 million minus \$18.788 million in additional SOSFA revenues (NSTAR Response to IR-DTE-4-1).

² Standard offer deferral balance of \$38.525 million minus \$54.308 million in additional SOSFA revenues (NSTAR Response to IR-DTE-4-1).

service and default service) that these customers would be required to pay (NSTAR Response to IR-AG-1-2).

While it is necessary and appropriate to reduce standard offer service deferrals, it is not appropriate to use the SOSFA mechanism to overcollect costs from standard offer service customers, and then, in turn, refund money overcollected from standard offer service customers to all customers. Neither BECo nor Commonwealth is presently overcollecting standard offer service costs. Consistent with the collection of standard offer costs from current standard offer service customers, and avoiding collection of unrecovered costs, with interest, from future customers, BECo and Commonwealth may adjust their SOSFA surcharges to 2.551 cents per KWH for usage on and after July 1, 2001. NSTAR will be required to submit documentation to support the contention that it will not overcollect. Implementation of the proposed SOSFAs will not result in any overcollection prior to the Department's opportunity to review this supporting documentation. The Department will take appropriate actions to prevent an overcollection of standard offer service costs. In addition, by December 31, 2001, the NSTAR Companies shall report to the Department their standard offer service deferral balances as well as their monthly SOSFAs.

By Order of the Department,

James Connelly, Chairman

W. Robert Keating, Commissioner

Paul B. Vasington, Commissioner

Eugene J. Sullivan, Jr., Commissioner

Deirdre K. Manning, Commissioner

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